Consolidated Financial Statements
(Expressed in U.S. dollars)

OPTIVA INC.

Fifteen month year ended December 31, 2019 and Twelve month year ended September 30, 2018

MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Optiva Inc. (the "Company"). Management is responsible for the information and representations contained in these consolidated financial statements.

We maintain appropriate processes to ensure that we produce relevant and reliable financial information. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies, which management believes are appropriate for the Company, are described in note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board of Directors appoint an Audit Committee of three independent directors to review the consolidated financial statements, as well as the adequacy of its internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

KPMG LLP, our independent auditors who were appointed by security holders at the last annual meeting, have audited the consolidated financial statements. Their report is presented below.

/s/ Danielle Royston
Chief Executive Officer

/s/ Anin Basu
Interim Chief Financial Officer

March 9, 2020
Toronto, Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Optiva Inc.

Opinion

We have audited the consolidated financial statements of Optiva Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and September 30, 2018
- the consolidated statements of comprehensive loss for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018
- the consolidated statements of changes in shareholder's equity (deficit) for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018
- the consolidated statements of cash flows for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and September 30, 2018, and its consolidated financial performance and its consolidated cash flows for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2(e) to the financial statements which indicates that the Entity has changed its accounting policy for revenue, as a result of the adoption of IFRS 15, Revenue from Contracts with Customers, and has applied that change using the cumulative effect method.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Derek Peters.

Toronto, Canada

March 9, 2020

OPTIVA INC.

Consolidated Statements of Financial Position
(Expressed in U.S. dollars)

As at December 31, 2019 and September 30, 2018

		2019		2018 (see note 2e)
Assets				
Current assets:				
Cash and cash equivalents (note 7)	$	31,747,993	$	36,174,863
Trade accounts and other receivables (note 8)		7,808,293		14,954,291
Unbilled revenue		4,468,014		12,908,847
Prepaid expenses		1,983,391		1,833,105
Income taxes receivable		4,105,144		5,173,450
Other assets		243,199		253,517
Inventories		473,201		1,111,782
Total current assets		50,829,235		72,409,855
Restricted cash (note 16(b))		951,291		3,507,759
Property and equipment (note 9)		–		541,861
Deferred income taxes (note 13(d))		217,423		2,093,716
Investment tax credits (note 13(c))		358,309		361,810
Long-term unbilled revenue		4,676,597		1,531,062
Intangible assets (note 10(a))		12,215,598		18,044,530
Goodwill (note 10(b))		32,271,078		32,271,078
Total assets	$	101,519,531	$	130,761,671
Liabilities and Shareholders' Equity (Deficit)				
Current liabilities:				
Trade payables	$	7,350,942	$	21,568,158
Accrued liabilities		10,518,015		12,832,812
Provisions (note 17)		3,630,550		7,655,199
Income taxes payable		3,644,752		500,489
Deferred revenue		6,363,724		13,445,746
Total current liabilities		31,507,983		56,002,404
Deferred revenue		702,143		1,512,863
Other liabilities		2,628,408		1,272,488
Pension and other long-term employment benefit plans (note 11)		12,486,732		16,900,821
Provisions (note 17)		36,611		5,662,009
Preferred shares (note 12(c)), (note 4(a)		66,345,563		57,862,418
Series A Warrant (note 12 (c)) (note 4(a)		22,679,934		21,754,223
Deferred income taxes (note 13(d))		753,036		120,000
Total liabilities		137,140,410		161,087,226
Shareholders' equity (deficit):				
Share capital		250,893,223		248,680,325
Standby Warrant (note 12(d))		997,500		997,500
Contributed surplus		11,291,632		13,386,978
Deficit		(294,322,038)		(285,318,990)
Accumulated other comprehensive loss		(4,481,196)		(8,071,368)
Total shareholders' equity (deficit)		(35,620,879)		(30,325,555)
Total liabilities and shareholders' equity (deficit)	$	101,519,531	$	130,761,671

Commitments, restricted cash, guarantees and contingent liabilities (notes 16 and 17)

The accompanying notes are an integral part of these consolidated financial statements.

OPTIVA INC.

Consolidated Statements of Comprehensive Loss
(Expressed in U.S. dollars, except per share and share amounts)

Fifteen months ended December 31, 2019 and Twelve months ended September 30, 2018

	2019	2018 (see note 2e)
Revenue:		
Support and subscription	$ 86,859,693	$ 84,747,291
Software licenses, services and other	34,022,831	36,879,413
	120,882,524	121,626,704
Cost of revenue (note 5)	39,351,285	50,711,612
Gross profit	81,531,239	70,915,092
Operating expenses (note 5):		
Sales and marketing	12,552,570	11,331,769
General and administrative	22,585,631	31,076,334
Research and development	35,156,577	61,515,108
Restructuring costs (recovery) (note 17(a))	(1,715,241)	51,775,138
	68,579,537	155,698,349
Income (loss) from operations	12,951,702	(84,783,257)
Foreign exchange loss	(1,475,908)	(317,823)
Finance income (note 6(b))	604,885	523,718
Finance costs (note 6(a))	(14,190,135)	(2,572,010)
Loss before income taxes	(2,109,456)	(87,149,372)
Income tax expense (note 13(a)):		
Current	9,162,706	5,391,880
Deferred	2,478,943	50,404
	11,641,649	5,442,284
Loss for the year	(13,751,105)	(92,591,656)
Other comprehensive income:		
Items that will not be reclassified to net income:		
Actuarial gain on pension and non-pension post-employment benefit plans, net of income tax expense of nil (2018 - nil) (note 11)	3,590,172	390,055
Total comprehensive loss	$ (10,160,933)	$ (92,201,601)
Loss per common share (Note 12(b)):		
Basic	$ (2.60)	$ (17.69)
Diluted	(2.60)	(17.69)
Weighted average number of common shares:		
Basic	5,280,662	5,233,047
Diluted	5,280,662	5,233,047

The accompanying notes are an integral part of these consolidated financial statements.

OPTIVA INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in U.S. dollars)

Fifteen months ended December 31, 2019 and Twelve months ended September 30, 2018

	Share capital						
	Number Outstanding (note 12(b))	Amount	Standby Warrant	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
Balance, September 30, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,386,978	$ (285,318,990)	$ (8,071,368)	$ (30,325,555)
Impact of IFRS 15 Adoption (note 2(e))	–	–	–	–	4,748,057	–	4,748,057
Loss for the year	–	–	–	–	(13,751,105)	–	(13,751,105)
Defined benefit plan actuarial gain (note 11)	–	–	–	–	–	3,590,172	3,590,172
Issue of shares under RSU (note 12(f))	82,710	2,212,898	–	(2,212,898)	–	–	–
Share-based compensation (note 12)	–	–	–	117,552	–	–	117,552
Balance, December 31, 2019	5,315,757	$ 250,893,223	$ 997,500	$ 11,291,632	$ (294,322,038)	$ (4,481,196)	$ (35,620,879)
Balance, September 30, 2017	5,233,047	$ 248,680,325	$ 997,500	$ 11,684,537	$ (192,727,334)	$ (8,461,423)	$ 60,173,605
Loss for the year	–	–	–	–	(92,591,656)	–	(92,591,656)
Defined benefit plan actuarial gain (note 11)	–	–	–	–	–	390,055	390,055
Share-based compensation (note 12)	–	–	–	1,702,441	–	–	1,702,441
Balance, September 30, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,386,978	$ (285,318,990)	$ (8,071,368)	$ (30,325,555)

The accompanying notes are an integral part of these consolidated financial statements.

OPTIVA INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

Fifteen months ended December 31, 2019 and Twelve months ended September 30, 2018

	2019	2018 (see note 2e)
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (13,751,105)	$ (92,591,656)
Adjustments for:		
Depreciation of property and equipment (note 9)	166,698	2,505,018
Amortization of intangible assets (note 10)	5,828,932	7,487,034
Finance income (note 6(b))	(604,885)	(523,718)
Finance costs (note 6(a))	14,190,135	2,572,010
Income tax expense (note 13)	11,641,649	5,442,284
Unrealized foreign exchange loss	39,847	3,073,740
Share-based compensation (note 12)	2,175,412	2,776,008
Pensions	(684,984)	(595,754)
Provisions	(9,650,047)	(6,161,235)
Loss on disposal of property and equipment (note 9)	307,707	421,610
Change in non-cash operating working capital (note 14)	(7,094,600)	20,708,948
	2,564,759	(54,885,711)
Interest paid	(77,487)	(185,333)
Interest received	281,776	512,379
Income taxes paid	(5,028,410)	(6,452,848)
	(2,259,362)	(61,011,513)
Financing activities:		
Dividends paid (note 12(c))	(4,264,969)	(11,640,670)
	(4,264,969)	(11,640,670)
Investing activities:		
Sale (Purchase) of property and equipment (note 9)	67,456	(5,538)
Purchase of intangible assets (note 10)	–	(9,985)
Decrease in restricted cash	2,556,468	1,045,864
	2,623,924	1,030,341
Effect of foreign exchange rate changes on cash and cash equivalents	(526,463)	(3,095,039)
Decrease in cash and cash equivalents	(4,426,870)	(74,716,881)
Cash and cash equivalents, beginning of year	36,174,863	110,891,744
Cash and cash equivalents, end of year	$ 31,747,993	$ 36,174,863

The accompanying notes are an integral part of these consolidated financial statements.

Reporting Entity

Optiva Inc. (the "Company" or "Optiva"), through its predecessors, commenced operations on March 29, 1999 and was incorporated under the Canada Business Corporations Act on November 1, 2006. Optiva provides products to the telecommunications software market. The Company's registered head office is located at 155 Wellington Street West, 40th Floor, Toronto, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange under ticker symbol — TSX: OPT.

Optiva is the parent of the wholly owned operating subsidiary, Optiva Canada Inc., and its various subsidiaries.

1. Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). On December 12, 2018, the Board of Directors approved a change in the Company's fiscal year end from September 30, to December 31. The Company's 2019 fiscal reporting period is for the fifteen months ended December 31, 2019. The comparatives are for the twelve months ended September 30, 2018.

These consolidated financial statements for the fiscal period ended December 31, 2019 were authorized for issuance by the Board of Directors of the Company on March 9, 2020.

2. Significant accounting policies:

(a) Basis of measurement and presentation:

These consolidated financial statements have been prepared on a historical cost basis, except for:

- financial assets classified at fair value through profit and loss or as available-for-sale;
- embedded derivative liability, which is measured at fair value;
- plan assets for defined benefit pension plan is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation and is limited as explained in note 11(b); and 11(c).
- cash-settled share-based payments, which are measured at fair value.

2. Significant accounting policies (continued):

(b) Basis of consolidation:

These consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiary companies. All significant intercompany balances and transactions have been eliminated on consolidation.

(c) Functional currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities not denominated in the functional currency are translated at the year-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive loss.

(d) Use of judgments and estimates:

The preparation of consolidated financial statements and application of IFRS often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the year in which the estimates are revised and may impact future years as well. Other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment.

The following are critical accounting polices subject to judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported consolidated results and consolidated financial position.

2. Significant accounting policies (continued):

(i) Revenue recognition, deferred revenue and unbilled revenue:

Key sources of estimation uncertainty
In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy. Estimates of the percentage-of-completion for customer projects are based upon current actual and forecasted information and contractual terms.

Critical judgments in applying accounting policies
A significant portion of the Company's revenue is generated from large and complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple components within these arrangements to assess whether deliverables can be recognized separately for revenue recognition purposes. This includes whether software installation and implementation services have standalone value to the customer. In evaluating whether software is separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, whether other vendors could provide the services, and the linkage of payments of software to delivery of services.

(ii) Trade receivables:

Key sources of estimation uncertainty
The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

(iii) Deferred taxes and Income taxes:

Key sources of estimation uncertainty
Deferred tax assets and liabilities are recognized for temporary differences and for tax loss carryforwards. The valuation of deferred tax assets is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carryforwards may be utilized.

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting year, and any adjustments to tax payable related to prior years. Deferred tax financial reporting purposes and tax bases of assets and liabilities and are

2. Significant accounting policies (continued):

measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and income tax planning strategies in making this assessment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities where these entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(iv) Estimate of useful lives of property and equipment and intangible assets:

Key sources of estimation uncertainty

Useful lives over which assets are depreciated or amortized are based on management's judgment of future use and performance. Expected useful lives are reviewed annually for any change to estimates and assumptions.

(v) Pension and non-pension post-employment benefit plans:

Key sources of estimation uncertainty:

The actuarial valuation of the defined benefit obligation and the fair value of plan assets require estimates, including discount rates applied to the Company's pension plan and non-pension post-employment benefit liabilities.

2. Significant accounting policies (continued):

(vii) Goodwill valuation:

Key sources of estimation uncertainty:
We use estimates in determining the recoverable amount of our cash-generating unit (“CGU”) in performing annual impairment testing of goodwill. The determination of the recoverable amount for the purpose of impairment testing requires the use of significant estimates, such as future cash flows, terminal growth rate and discount rate.

We estimate value in use for impairment tests by discounting estimated future cash flows for periods up to five years to their present value. The future cash flows are based on our estimates of expected future operating results of the cash generating unit (“CGU”) after considering economic conditions and a general outlook for the CGU’s industry. Our discount rates consider market rates of return, debt to equity ratios and certain risk premiums, among other things. The terminal value is the value attributed to the CGU’s operations beyond the projected time period of the cash flows using a perpetuity rate based on expected economic conditions and a general outlook for the industry.

We make certain assumptions when deriving expected future cash flows, which may include assumptions pertaining to discount and terminal growth rates. These assumptions may differ or change quickly depending on economic conditions or other events. It is therefore possible that future changes in assumptions may negatively affect future valuations of the CGU and goodwill, which could result in impairment losses.

(e) Revenue recognition:

The Company’s accounting policy under IFRS 15, adopted effective October 1, 2018, is as follows:

(i) General:

The Company's revenue is derived primarily from licensing of software products under non-cancellable license agreements, the provision of related professional services (including installation, integration and training) and post-contract customer support ("PCS"). In certain cases, the Company also provides customers with hardware in conjunction with its software offerings. Revenue comprises the fair value of consideration received or receivable from the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

2. Significant accounting policies (continued):

(ii) Arrangements with multiple components:

The Company enters into arrangements that contain separately identifiable components, which may include any combination of software, services, PCS and/or hardware.

Where multiple transactions or contracts are linked, such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer arrangement for purposes of revenue recognition. When two or more revenue-generating activities or deliverables are sold under an arrangement, each deliverable that is considered a separate component is accounted for separately. A deliverable is separately accounted for when a delivered item has standalone value from undelivered items based on the substance of the arrangement. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single component.

Where an arrangement includes multiple components, revenue is allocated to the different components based on their relative fair values or the residual method, as applicable. The Company generally uses optional stated renewal rates to evidence fair value of undelivered term-license/PCS services when the renewal fees and terms are substantive. When stated renewal rates do not exist for an arrangement, the Company considers fees charged on standalone PCS renewals in other similar arrangements to establish fair value. The Company typically evidences fair value for other products and services based on the pricing when those deliverables are sold separately. Where reasonable vendor-specific or third party inputs do not exist to reliably establish fair value, the Company allocates revenue based on its best estimate of selling price that the Company would transact at if the deliverable were sold on a standalone basis. For services, this includes the expected cost of delivery plus an estimated profit margin. Under the residual method, revenue is allocated to undelivered components of the arrangement based on their fair values and the residual amount of the arrangement revenue is allocated to delivered components.

The revenue policies below are applied to each separately identifiable component. Revenue associated with each component is deferred until the criteria required to recognize revenue have been met.

The Company recognizes revenue once persuasive evidence exists, generally in the form of an executed agreement, it is probable the economic benefits of the transaction will flow to the Company and revenue and costs can be measured reliably. If collection is not considered probable, revenue is recognized only once fees are collected.

2. Significant accounting policies (continued):

(iii) Software:

The Company sells on-premise software licenses primarily on a perpetual basis. Where licensed software is combined with non-distinct services as a combined performance obligation, revenue is recognized according to the percentage-of-completion method. The Company uses either the ratio of hours to estimated total hours or the completion of applicable milestones, as appropriate, as the measure of its progress to completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date determinable. Distinct software licenses, when not combined with services for accounting purposes, are recognized upon delivery and commencement of the customer's right to use the software.

(iv) Software-as-a-service (SaaS):

SaaS allows a customer access to the Company's software on a platform hosted by a third party without taking possession of the software. SaaS is typically offered on a fixed-term basis. Where fees are fixed for the term, revenue is recognized ratably over the term commencing when the customer has the right to access the platform. Where the fees are based on periodic activity, revenue is recognized as invoiced to the customer at each period.

(v) Services:

Revenue for installation, implementation, training and other services, when not combined with software as a combined performance obligation, is recognized as the services are delivered to the customer. Fixed fee service arrangements are recognized using the percentage-of-completion method based on labour input measures.

2. Significant accounting policies (continued):

(vi) Post-contract support:

PCS revenue is recognized ratably over the term of the PCS agreement.

(vii) Third party software and hardware:

Third party software and hardware revenue is recognized when control of the product transfers to the customer. When the products are distinct, control typically transfers upon delivery to the customer. Where such products are related to professional services as a combined performance obligation, the percentage-of-completion method is applied.

(viii) Unbilled and deferred revenue:

Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled revenue. Cash proceeds received in advance of performance under contracts are recorded as deferred revenue. Deferred and unbilled revenue is classified as long-term if it relates to performance obligations that are expected to be fulfilled greater than 12 months from period end.

Critical judgments in applying accounting policies

A significant portion of the Company's revenue is generated from large and complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple products and services within these arrangements to assess whether deliverables are i) distinct performance obligations capable of being recognized separately or ii) non-distinct and must be combined with other goods and/or services as a combined performance obligation for revenue recognition purposes. In evaluating whether software is separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, the degree to which they involve significant customization of the licensed software, and whether other vendors could provide the services.

Impact of Transition to IFRS 15

Effective October 1, 2018 the Company adopted IFRS 15 using the cumulative effect method which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at October 1, 2018. Therefore, the comparative information has not been restated.

2. Significant accounting policies (continued):

Adoption of IFRS 15 has had no impact on the accounting for the Company's professional services, third party goods and services and legacy post-contract support contracts on previously delivered perpetual licenses. Adoption has impacted certain customer arrangements containing software licenses for which the customer has the right to pay for the software as it increases its capacity usage over a fixed term.

The Company has certain license arrangements where the customer has the right to increase its licensed capacity within stated capacity thresholds over a fixed time period, subject to a contractual minimum license requirement. Prior to adopting IFRS 15, revenue was recognized based on customer usage and billed as such incremental capacity was delivered. Under IFRS 15, the Company considers these licenses to be perpetual in nature. The performance obligation containing the license is fully transferred at the time of customer acceptance of the license, and therefore the transaction price allocated to the minimum license commitment is recognized at that time. For these contracts, this results in earlier recognition of license revenue. In addition, where payment terms related to these licenses extend beyond a period of one year, the Company has determined that a significant financing component exists. The value of these financing components was assessed using an appropriate interest rate and best estimate of the value and timing of the remaining payments over the expected term of the agreement.

Prior to adopting IFRS 15, the Company reported unbilled revenue and deferred revenue balances in its consolidated balance sheet on the basis of the individual performance obligations within each customer arrangement. Under IFRS 15, the status of the contract must be presented on a net basis as either unbilled or deferred revenue to reflect the nature of the net underlying rights and performance obligations at the contract level on the statement of financial position. Where a contract is combined for accounting purposes with one or more other contracts, the net contract balance position must be determined and reported at the aggregate level for all combined contracts.

The Company reviewed the tax implications of adjustments made at adoption and determined that these resulted in an increase in deferred tax liabilities as a result of transferring revenue to the prior period. This increase is fully offset by recognition of previously unrecorded deferred tax assets of equal value and therefore no adjustment is required.

New and expanded annual disclosure requirements on revenue, performance obligations, and contract balances are also expected to be significant and require changes to processes to accumulate and report aggregated data requirements.

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

The following table summarizes the impact on the Company's statement of financial position at October 1, 2018 as a result of adopting IFRS 15:

	As at October 1, 2018		
	Pre-IFRS 15 Adoption	Adjustments	Post-IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	$ 12,908,847	$ (1,320,995)	$ 11,587,852
Other assets	59,501,008	(190,934)	59,310,074
Non-current assets			
Long-term unbilled revenue	1,531,062	4,558,431	6,089,493
Deferred income taxes	2,093,716	–	2,093,716
Other assets	54,727,038	–	54,727,038
Total assets	$ 130,761,671	$ 3,046,502	$ 133,808,173
Liabilities and Shareholders' Deficit			
Current liabilities			
Deferred revenue	$ 13,445,746	$ (1,701,555)	$ 11,744,191
Other liabilities	42,556,658	–	42,556,658
Non-current liabilities			
Deferred revenue	1,512,863	–	1,512,863
Deferred income taxes	120,000	–	120,000
Other liabilities	103,451,959	–	103,451,959
Total liabilities	161,087,226	(1,701,555)	159,385,671
Shareholders' deficit			
Other equity	254,993,435	–	254,993,435
Deficit	(285,318,990)	4,748,057	(280,570,933)
Total liabilities and shareholders' deficit	$ 130,761,671	$ 3,046,502	$ 133,808,173

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

The following tables summarize the impact of adopting IFRS 15 on the Company's consolidated financial statements for the fifteen months ended December 31, 2019:

	As at December 31, 2019		
	As reported	Adjustments	Without IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	$ 4,468,014	$ 10,480,094	$ 14,948,108
Other assets	46,361,221	(485,472)	45,875,749
Non-current assets			
Long-term unbilled revenue	4,676,597	(4,291,016)	385,581
Deferred income taxes	217,423	–	217,423
Other assets	45,796,276	–	45,796,276
Total assets	$ 101,519,531	$ 5,703,606	$ 107,223,137
Liabilities and Shareholders' Deficit			
Current liabilities			
Deferred revenue	$ 6,363,724	$ 8,718,551	$ 15,082,275
Other liabilities	25,144,259	–	25,144,259
Non-current liabilities			
Deferred revenue	702,143	–	702,143
Deferred income taxes	753,036	–	753,036
Other liabilities	104,177,248	–	104,177,248
Total liabilities	137,140,410	8,718,551	145,858,961
Shareholders' deficit			
Other equity	258,701,159	–	258,701,159
Deficit	(294,322,038)	(3,014,945)	(297,336,983)
Total liabilities and shareholders' deficit	$ 101,519,531	$ 5,703,606	$107,223,137

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

	Fiscal period ended December 31, 2019		
	As reported	Adjustments	Without IFRS 15 Adoption
Revenue			
Support and subscription	$ 86,859,693	$ 44,950	$ 86,904,643
Software licenses, services and other	34,022,831	1,961,731	35,984,562
	120,882,524	2,006,681	122,889,205
Expenses	122,991,980	273,569	123,265,549
Income (loss) before income taxes	(2,109,456)	1,733,112	(376,344)
Income tax expense			
Current	9,162,706	–	9,162,706
Deferred	2,478,943	–	2,478,943
Income (loss) for the period	$ (13,751,105)	$ 1,733,112	$ (12,017,993)
Earnings (loss) per share			
Basic	(2.60)	0.33	(2.27)
Diluted	(2.60)	0.33	(2.27)

The following presents the changes to unbilled revenue and deferred revenue balances:

Unbilled Revenue	2019
Balance, beginning of year	$ 14,439,909
Increase from IFRS 15 opening balance sheet adjustments	3,237,435
Amounts transferred to accounts receivable from beginning balance	(11,324,662)
Revenue in excess of billings, net of amounts transferred to accounts receivable	2,293,493
Changes to provisions	1,006,575
Amounts written off	(274,401)
Foreign exchange and other movements	(233,738)
Balance, end of year	$ 9,144,611
Unbilled revenue classified as a current asset	4,468,014
Unbilled revenue classified as long-term	4,676,597

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

Deferred Revenue	2019
Balance, beginning of year	$ 14,958,609
Decrease from IFRS 15 opening balance sheet adjustments	(1,701,555)
Amounts recognized as revenue from beginning balance	(13,251,171)
Increase from amounts invoiced, net of revenue recognized	7,786,021
Changes to provisions	1,861,509
Amounts written off	(2,872,237)
Foreign exchange and other movements	284,691
Balance, end of year	$ 7,065,867
Deferred revenue classified as a current asset	6,363,724
Deferred revenue classified as long-term	702,143

(f) Net loss per common share:

Basic net loss per common share is computed by dividing loss for the year by the weighted average number of common shares outstanding during the year. Diluted net loss per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The diluted net loss per share calculation, excludes the impact of employee stock options, treasury shares and other potentially dilutive instruments when their inclusion would be anti-dilutive.

(g) Financial instruments:

Effective October 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of financial assets as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39, Financial Instruments: recognition and measurement (“IAS 39”). This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39.

Cash and cash equivalents, restricted cash, trade and other receivables that were classified as loans and receivables under IAS 39, respectively, are now classified as financial assets measured at amortized cost. Trade payables, accrued liabilities, provisions, long-term liabilities and preferred shares were classified as other financial liabilities under IAS 39, respectively, are now classified as financial liabilities measured at fair value. Series A warrant that was classified

2. Significant accounting policies (continued):

as a financial liability at fair value through profit or loss under IAS 39, continues to be recognized as a financial liability at fair value through profit or loss under IFRS 9. There is no change to the initial measurement of the Company's financial assets. The adoption of IFRS 9 did not have any material impact on the consolidated financial statements.

(h) Cash and cash equivalents:

Cash and cash equivalents include balances with banks and highly liquid instruments with original maturities of less than 90 days at issuance.

(i) Inventories:

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories include hardware and software held by the Company for customer use and are also purchased when required by specific customer projects; the Company occasionally makes only minor modifications to the inventories before shipping to the customer.

(j) Property and equipment:

Property and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes expenses that are directly attributable to the acquisition of the asset. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 - 5 years
Furniture, fixtures and lab equipment	3 - 5 years
Leasehold improvements	Shorter of term of lease or estimated useful lives

The estimated useful lives, depreciation method and residual values of each asset are evaluated annually, or more frequently, if required and are adjusted, if appropriate.

2. Significant accounting policies (continued):

(k) Leased assets:

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased assets are measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining liability.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated statements of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense, over the term of the lease.

(l) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired through asset acquisitions or business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	1 - 3 years
Acquired technology	5 - 10 years
Customer relationships	9 - 10 years

The amortization method, estimated useful lives and residual values are reviewed annually, or more frequently, if required and are adjusted as appropriate.

2. Significant accounting policies (continued):

(m) Business combinations and goodwill:

Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are generally recognized at their fair values at the date of acquisition. Acquisition-related transaction costs are expensed as incurred. The fair value of contingent consideration is considered part of the consideration transferred and included in the total purchase price on the acquisition date. Contingent consideration classified as equity is not remeasured subsequent to the acquisition date (other than for measurement period adjustments) and its subsequent settlement is accounted for within equity. Contingent consideration that is liability classified and falls within the scope of International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement ("IAS 39"), is remeasured to fair value at each reporting date until the contingency is resolved, with changes in fair value recorded in other income.

Goodwill is recognized at the acquisition date as the excess of the fair value of consideration transferred less the net recognized amount (generally fair value) of identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Goodwill is not subject to amortization and is measured at cost less accumulated impairment losses.

The allocation of the purchase price to the net assets acquired may be adjusted to reflect new information obtained about facts and circumstances that exist at the acquisition date, up to a maximum of 12 months following the date of acquisition. Changes to the allocation of the purchase price during this measurement period are recognized retrospectively.

(n) Impairment:

At each reporting date, the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Goodwill is tested annually for impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of goodwill is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. Cash-generating units are the smallest identifiable groups of assets that generate cash inflows from the continuing use that are largely independent of the cash inflows of other assets or cash-generating units. For the purposes of assessing for indications of impairment and impairment testing, assets that do not

2. Significant accounting policies (continued):

generate largely independent cash inflows are grouped into cash-generating units. The recoverable amount of a cash generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss and allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of cash generating units), and then to reduce the carrying amounts of the other assets in the cash generating unit (group of cash generating units) on a pro rata basis.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount, with the exception of impairment losses on goodwill, which are not reversed. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

(o) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract less the expected benefits to be derived by the Company.

(p) Research and development costs:

Internally generated expenses on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss as an expense in the period in which they are incurred. Internally generated development costs are

2. Significant accounting policies (continued):

capitalized when the costs are expected to provide future benefits with reasonable certainty and the costs meet all the criteria for capitalization. No internal development costs have been capitalized as at and during the fiscal periods ended December 31, 2019 and September 30, 2018.

(q) Income taxes:

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting year, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and income tax planning strategies in making this assessment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities where these entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(r) Investment tax credits ("ITCs"):

The Company is entitled to certain Canadian ITCs for qualifying research and development activities performed in Canada. The Company records ITCs when qualifying expenses have been made, provided there is reasonable assurance that the credits will be realized. The amount of ITCs recorded can vary, based on estimates of future taxable income. These credits can be applied against income tax liabilities and are subject to a 20-year carryforward period or, in some cases, are refundable. Accrued ITCs are accounted for as a reduction of the related expenses for items expensed in profit or loss or a reduction of the related asset's cost for items capitalized in the consolidated statements of financial position.

2. Significant accounting policies (continued):

(s) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized at the earlier of recognizing costs for restructuring in the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, that includes the payment of termination benefits and when the Company can no longer withdraw the offer of those benefits. Termination benefits for voluntary redundancies are recognized if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If recognized termination benefits are payable more than 12 months after the reporting date, the liability is discounted to its present value.

(ii) Short-term employee benefits:

Employee benefit obligations are short-term in nature and are measured on an undiscounted basis and are recognized as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plan if the Company has a present legal or constructive obligation to pay this amount, as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Share-based compensation:

The Company issues stock options, restricted share units ("RSUs") and performance share units ("PSUs") pursuant to several share-based compensation plans. Stock options are settled with common shares of the Company. RSUs and PSUs are settled with either cash or common shares of the Company at discretion of the board. Compensation costs for options, RSUs and PSUs settled in equity are measured based on the grant date fair value of the award and recognized, net of estimated forfeitures, over the vesting period with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the period. Compensation cost for PSUs intended to be settled in cash is measured based on the fair value of the PSUs liability at the reporting date.

2. Significant accounting policies (continued):

The Company also has a deferred share units ("DSUs") plan. The plan allows for settlement of DSUs by cash or other assets. The fair value of the Company's DSUs is recognized using the liability method. Since the DSUs will be settled in cash or other assets, the fair value of the vested DSUs is revalued each period until the settlement date and any changes in the fair value of the liability are recognized in profit or loss. The Company has recognized a liability in the consolidated statements of financial position for the total fair value of the vested DSUs included in other long-term liabilities.

(iv) Other long-term employee benefits:

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the year in which they arise.

(v) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are payable more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

2. Significant accounting policies (continued):

(vi) Defined benefit plans:

A defined benefit plan is a post-employment benefit plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in their current and prior years. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan's liabilities. When the benefits of a plan are increased, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the consolidated statements of comprehensive loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in the consolidated statements of comprehensive loss.

(t) Segment reporting:

The Company has one reportable segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products, related services and hardware.

3. New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at December 31, 2019 and could have an impact on future periods.

(a) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17, Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company will adopt the standard effective January 1, 2020. However, management has assessed the extent of the impact of adoption of this standard and interpretations on the consolidated financial statements of the Company as of December 31, 2019 and does not expect them to have a material impact on the Company's consolidated financial statements. The Company will be applying the practical expedient not to recognize right-of-use asset and lease liability for short-term leases that have a lease term of 12 months or less and leases of low value assets. Substantially all of the existing leases in the Company at December 31, 2019 would fall under the category of short-term leases or leases of low value assets. The lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term.

(Expressed in U.S. dollars)

4. Financial instruments and capital management:

(a) Accounting classifications and fair values:

The Company adopts a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e. unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Financial assets and liabilities measured at fair value are summarized below:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	22,679,934	22,679,934	21,754,223	21,754,223
Preferred Shares (Level 2)	66,345,563	66,345,563	57,862,418	57,862,418

There were no transfers of financial assets between levels during the fiscal periods ended December 31, 2019 and September 30, 2018.

Financial instruments are classified into one of the following categories: financial assets and financial liabilities at fair value.

4. Financial instruments and capital management (continued):

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities, provisions and other liabilities approximate fair values because of the short-term nature of these financial instruments.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

(b) Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

(i) Risk management framework:

The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company does not follow a specific risk model, but rather includes risk management analysis in all levels of strategic and operational planning. The Company's management, specifically the Senior Leadership Team, is responsible for developing and monitoring the Company's risk strategy. The Company's management reports regularly to the Board of Directors on its activities.

The Company's management identifies and analyzes the risks faced by the Company. Risk management strategy and risk limits are reviewed regularly to reflect changes in the market conditions and Company's activities. The Company's management aims to develop and implement a risk strategy that is consistent with the Company's corporate objectives.

(ii) Credit risk:

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from banks and customers.

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

The Company has credit risk relating to cash and cash equivalents and restricted cash, which it manages by dealing with large chartered Canadian and international banks and investing in highly liquid investments of a rating of no less than R1, the credit rating assigned to those who pay on time.

The Company's exposure to credit risk geographically for cash and cash equivalents and restricted cash as at December 31, 2019 and September 30, 2018 was as follows:

	2019	2018
Europe, Middle East and Africa	36%	47%
North America, Latin America and Caribbean	48%	43%
Asia and Pacific Rim	16%	10%
	100%	100%

For the year ended December 31, 2019, the Company had no customers (2018 – one) that accounted for greater than 10% of revenue. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. The Company also insures accounts receivable balances in certain countries.

Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is perceived not to be fully collectible. The Company's trade receivables had a carrying value of $8,379,591 as at December 31, 2019 (September 30, 2018 - $15,186,706), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers varies based upon the size of the customer, type of revenue and geographic region, and generally call for payment within 30 to 120 days. At December 31, 2019, approximately 17.7% of gross trade receivables, or $2,108,402 was outstanding for more than 120 days (2018 – 16.9% or $3,431,836). The activity of the allowance for doubtful accounts for the fifteen and twelve months ended December 31, 2019 and September 30, 2018 is as follows:

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

	2019	2018
Allowance for doubtful accounts, beginning of year	$ 2,093,128	$ 2,213,234
Bad debt expense (recovery)	791,954	(109,972)
Write-off of bad debts	(1,300,655)	(10,134)
Allowance for doubtful accounts, end of year	$ 1,584,427	$ 2,093,128

Allowance for doubtful accounts is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern risks.

The Company's exposure to credit risk for trade receivables by geographic area as at December 31, 2019 and September 30, 2018 was as follows:

	2019	2018
Europe, Middle East and Africa	55%	66%
North America, Latin America and Caribbean	36%	18%
Asia and Pacific Rim	9%	16%
	100%	100%

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities as at December 31, 2019 will mature as follows:

	Less than 1 year	1 - 2 years	2 years and thereafter
Trade payables	$ 7,350,942	$ –	$ –
Accrued liabilities	10,518,015	–	–
Provisions	3,630,550	36,611	–
Other liabilities	–	–	2,628,408
Preferred shares	–	–	66,345,563
	$ 21,499,507	$ 36,611	$ 68,973,971

The Company also has contractual obligations in the form of operating leases (note 16(a)).

Management believes the Company's existing cash and cash equivalents, restricted cash and cash from operating activities will be adequate to support all of its financial liabilities and contractual commitments as they become due.

The Company operates in a number of jurisdictions, some of which impose currency remittance restrictions and income tax withholdings, which impacts the timing and amount of cash which can be repatriated from these countries.

(iv) Market risk:

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in the market risk factors. The market risk factors which affect the Company are foreign currency and interest rates.

Foreign currency risk:

The Company conducts a significant portion of its business activities in foreign countries. Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by converting foreign-denominated cash

4. Financial instruments and capital management (continued):

balances into U.S. dollars to the extent practical to match U.S. dollar obligations. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the U.S. dollar and these foreign currencies. The Company recognized a foreign currency exchange loss of $1,475,908 during the fifteen months ended December 31, 2019 (twelve month ended September 30, 2018 – loss of $317,823).

The following is the Company's exposure to foreign currency risk for significant currencies:

	Currency of exposure in U.S. dollars	
2019	CAD	Euro
Cash and cash equivalents	$ 896,116	$ 2,655,406
Trade accounts and other receivables	1,954,127	1,017,934
Restricted cash	363,005	588,286
Trade payables	(761,308)	(543,947)
Accrued liabilities	(2,466,202)	(2,865,862)
Net exposure	$ (14,262)	$ 851,817

	Currency of exposure in U.S. dollars	
2018	CAD	Euro
Cash and cash equivalents	$ 663,962	$ 8,539,297
Trade accounts and other receivables	788,482	2,777,091
Restricted cash	1,382,894	1,911,716
Trade payables	(1,158,046)	(1,375,099)
Accrued liabilities	(9,740,088)	(3,767,777)
Net exposure	$ (8,062,796)	$ 8,085,228

If a shift in foreign currency exchange rates of 10% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately $1,166,427 (2018 - $1,746,751) due to the fluctuation and this would be recorded in the consolidated statements of comprehensive loss.

4. Financial instruments and capital management (continued):

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and cash equivalents, and restricted cash. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and restricted cash and the related income for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018 would not be material.

(c) Management of capital:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of 100% customer success, fund research and development leading to innovative and market leading products and implement its strategic plan that will help towards increasing shareholder value, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is currently composed of Preferred Shares and Series A Warrant (classified as liability), Subordinated Voting Shares and Standby Warrant (classified as equity). The Company's primary uses of capital are financing its operations including restructuring, increases in working capital, capital expenditures, payment of preferred share dividends when approved by the Board of Directors and acquisitions. The Company currently funds these requirements from cash flows from operations and cash raised through past share issuances.

(Expressed in U.S. dollars)

5. Costs of revenue and operating expenses, excluding acquisition and related costs and restructuring costs:

The Company presents functional consolidated statements of comprehensive loss in which expenses are aggregated according to the function to which they relate. The Company has identified the major functions as costs of revenue, sales and marketing, general and administrative and research and development activities.

2019	Cost of revenue	Sales and marketing	General and administrative	Research and development
Personnel expenses (a)	$ 17,999,463	$ 6,045,025	$ 4,971,403	$ 10,188,991
Share based compensation	(45,661)	(9,362)	2,230,779	(344)
Third party software support and hardware	4,910,344	–	–	–
Other operating expenses (b)	16,487,139	6,516,907	9,529,945	24,825,803
Depreciation and amortization	–	–	5,853,504	142,127
	$ 39,351,285	$ 12,552,570	$ 22,585,631	$ 35,156,577

2018	Cost of revenue	Sales and marketing	General and administrative	Research and development
Personnel expenses (a)	$ 27,975,192	$ 9,281,232	$ 2,086,794	$ 16,984,338
Share based compensation	792,751	(182,727)	2,326,985	(161,001)
Third party software support and hardware	14,666,346	–	–	–
Other operating expenses (b)	7,274,897	2,230,907	17,663,237	43,703,819
Depreciation and amortization	2,426	2,357	8,999,318	987,952
	$ 50,711,612	$ 11,331,769	$ 31,076,334	$ 61,515,108

(a) Personnel expenses include the cost of services provided by the contractors from Crossover, a related party, as described in note 18.

(b) Other operating expenses include the cost of services provided by DevFactory, a related party, as described in note 18.

(Expressed in U.S. dollars)

6. Finance costs and finance income:

(a) Finance costs:

	2019	2018
Preferred shares dividend, accretion and amortization of deferred financing costs (note 12(c))	$ 12,748,114	$ 9,832,175
Series A Warrant fair value adjustment (note 12(e))	925,711	(7,868,549)
Other finance costs	516,310	608,384
	$ 14,190,135	$ 2,572,010

(b) Finance income:

Finance income includes interest income on bank accounts and term deposits of $604,885 for the fifteen months ended December 31, 2019 (twelve months ended September 30, 2018 - $523,718).

7. Cash and cash equivalents:

The Company maintains its cash balances with reputable banks with high credit ratings. The Company operates in several jurisdictions, some of which impose currency remittance restrictions and income tax withholdings, which impacts the timing and amount of cash which can be repatriated from these countries.

8. Trade accounts and other receivables:

	2019	2018
Trade receivables, net of allowance for doubtful accounts (note 4(b)(ii))	$ 6,795,164	$ 13,093,578
Other receivables (a)	972,093	1,756,843
Employee receivables (b)	41,036	103,870
	$ 7,808,293	$ 14,954,291

(a) At December 31, 2019 and September 30, 2018, the other receivables balance mainly includes amounts relating to indirect taxes receivable.

(b) Employee receivables represent advances for business travel and are adjusted as travel is completed and an expense reimbursement is claimed by the employees.

(Expressed in U.S. dollars)

9. Property and equipment:

	Computer equipment	Furniture, fixtures and lab equipment	Leasehold improvements	Total
Cost				
Balance, September 30, 2017	$ 2,946,221	$ 17,190,475	$ 3,050,163	$ 23,186,859
Additions	–	–	5,538	5,538
Disposals	(2,749,479)	(4,392,890)	(3,055,701)	(10,198,070)
Balance, September 30, 2018	196,742	12,797,585	–	12,994,327
Disposals	–	(2,309,415)	–	(2,309,415)
Balance, December 31, 2019	$ 196,742	$ 10,488,170	$ –	$ 10,684,912
Accumulated depreciation				
Balance, September 30, 2017	$ 2,742,427	$ 15,429,041	$ 1,557,780	$ 19,729,248
Depreciation	–	1,115,082	1,389,936	2,505,018
Disposals	(2,586,824)	(4,241,920)	(2,947,716)	(9,776,460)
Foreign exchange impact	(67)	(5,273)	–	(5,340)
Balance, September 30, 2018	155,536	12,296,930	–	12,452,466
Depreciation	41,206	125,492	–	166,698
Disposals	–	(1,973,668)	–	(1,973,668)
Foreign exchange impact	–	39,416	–	39,416
Balance, December 31, 2019	$ 196,742	$ 10,488,170	$ –	$ 10,684,912
Net book values				
September 30, 2018	$ 41,206	$ 500,655	$ –	$ 541,861
December 31, 2019	–	–	–	–

(Expressed in U.S. dollars)

10. Intangible assets and goodwill:

(a) Intangible assets

	Computer software	Acquired technology	Customer relationships	Total
Cost				
Balance, September 30, 2017	$ 5,940,837	$ 33,766,688	$ 29,565,712	$ 69,273,237
Disposals	9,985	–	–	9,985
Balance, September 30, 2018	5,950,822	33,766,688	29,565,712	69,283,222
Additions	–	–	–	–
Balance, December 31, 2019	$ 5,950,822	$ 33,766,688	$ 29,565,712	$ 69,283,222
Accumulated amortization				
Balance, September 30, 2017	$ 5,483,275	$ 26,571,686	$ 11,712,656	$ 43,767,617
Amortization	456,447	4,145,948	2,884,639	7,487,034
Foreign exchange impact	(1,850)	(9,564)	(4,545)	(15,959)
Balance, September 30, 2018	5,937,872	30,708,070	14,592,750	51,238,692
Amortization	12,950	2,215,763	3,600,219	5,828,932
Foreign exchange impact	–	–	–	–
Balance, December 31, 2019	$ 5,950,822	$ 32,923,833	$ 18,192,969	$ 57,067,624
Net book values				
Balance, September 30, 2018	$ 12,950	$ 3,058,618	$ 14,972,962	$ 18,044,530
Balance, December 31, 2019	–	842,855	11,372,743	12,215,598

(b) Goodwill:

The carrying value of goodwill at December 31, 2019 was $32,271,078 (September 30, 2018 - $32,271,078).

Goodwill is tested annually for impairment at the CGU level. The annual impairment test of goodwill was performed as at December 31, 2019 and September 30, 2018 and did not result in any impairment loss. At the December 31, 2019 impairment testing date, the Company identified a single CGU and performed its testing of the valuation of goodwill at the consolidated level.

10. Intangible assets and Goodwill (continued):

In performing the annual impairment test for the Company's CGU, the Company measured the value-in-use of the single CGU using certain key management assumptions. Cash flow projections, which were made over a five-year period, were based primarily on the Board approved financial budget plus a terminal value using a 3% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using a range of 17% to 19% pre-tax discount rate which reflects the entity's weighted average cost of capital. The fair value less costs to sell, primarily based on the Company's market capitalization as at December 31, 2019, also significantly exceeded the net carrying amount of the CGU.

Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss.

11. Pension and other long-term employment benefit plans:

In Germany, there are a number of pensions and post-employment benefit plans, including a cash balance plan that provides benefits on retirement, disability and death, a salary sacrifice plan, as well as, other post-employment benefit schemes. The plan assets are held in a separate Contractual Trust Arrangement with Deutsche Pensions Treuhand GmbH. The German pension plans operate under the legal framework of the German Company Pension Law and under the German Labour Law.

The other post-employment employee benefit plans relate to India and UAE. These plans are generally unfunded. The Company's pensions and post-employment benefit plans are subject to risks from changes in the market discount rate, the rate of salary and pension increases and longevity. A lower discount rate results in a higher defined benefit obligation and/or higher benefit costs.

The Company has assessed the valuation for pension and non-pension post-employment benefits. Pension fund assets are invested primarily in fixed income and equity securities. The Company's pension funds do not invest directly in the Company's shares, but may invest

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

indirectly, as a result of the inclusion of the Company's shares in certain market investment funds. These plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. The Company believes that the counterparty credit risk is low.

	2019	2018
German plans		
Fair value of plan assets (a)	$ (25,230,895)	$ (24,485,792)
Present value of obligations (b)	37,578,282	41,111,659
Total German employee benefit liability	12,347,387	16,625,867
Other plans		
Fair value of plan assets (a)	–	–
Present value of obligations (b)	139,345	274,954
Total other employee benefit liability	139,345	274,954
Total employee benefit liability	$ 12,486,732	$ 16,900,821

The following tables analyze plan assets, present value of defined benefit obligations, expense recognized in profit or loss, actuarial assumptions and other information for the German plans and other plans.

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(a) Plan assets:

Plan assets comprise:

	2019			2018		
	Germany	Other	Total	Germany	Other	Total
Short-term Eurozone bonds	$ 134,852	$ –	$ 134,852	$ 21,734,381	$ –	$ 21,734,381
Mixed funds	24,486,906	–	24,486,906	2,369,876	–	2,369,876
Cash	609,137	–	609,137	381,535	–	381,535
Fair value of plan assets	$ 25,230,895	$ –	$ 25,230,895	$ 24,485,792	$ –	$ 24,485,792
Return on plan assets	$ 1,102,562	$ –	$ 1,102,562	$ (160,941)	$ –	$ (160,941)

All asset classes in which plan assets are invested are traded freely and have quoted market prices in an active market.

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(b) Movement in the present value of the defined benefit obligations:

	2019			2018		
	Germany	Other	Total	Germany	Other	Total
Defined benefit obligations, October 1	$ 41,111,659	$ 283,102	$ 41,394,761	$ 40,452,496	$ 1,771,646	$ 42,224,142
Current service cost	31,686	92,964	124,650	725,554	(5,526)	720,028
Curtailment loss (gain)	–	(72,864)	(72,864)	160,992	117,534	278,526
Interest costs	916,056	24,449	940,505	860,155	71,825	931,980
Contributions by plan participants	5,048	–	5,048	340,479	–	340,479
Benefits paid by the employer	(560,859)	(186,839)	(747,698)	(264,050)	(960,584)	(1,224,634)
Benefits paid by the plan assets	(45,465)	–	(45,465)	(66,130)	–	(66,130)
Settlements paid by the employer	–	(22,388)	(22,388)	–	(476,577)	(476,577)
Actuarial loss (gains) in other comprehensive income	(2,500,836)	24,815	(2,476,021)	(349,359)	(201,637)	(550,996)
Loss (gain) on movement in exchange rates	(1,379,007)	(3,894)	(1,382,901)	(748,478)	(33,579)	(782,057)
Defined benefit obligations, end of year	$ 37,578,282	$ 139,345	$ 37,717,627	$ 41,111,659	$ 283,102	$ 41,394,761

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(c) Movement in the fair value of plan assets:

	2019			2018		
	Germany	Other	Total	Germany	Other	Total
Fair value of plan assets at October 1	$ 24,485,792	$ –	$ 24,485,792	$ 24,303,734	$ 33,778	$ 24,337,512
Contributions paid by plan participants	5,048	–	5,048	340,479	–	340,479
Contributions paid by the employer	519,147	–	519,147	264,050	–	264,050
Benefits paid by the employer	(560,859)	–	(560,859)	(264,050)	–	(264,050)
Benefits paid by the plan assets	(45,465)	–	(45,465)	(66,130)	(33,778)	(99,908)
Interest income from plan assets	549,130	–	549,130	512,612	–	512,612
Return on plan assets	1,114,151	–	1,114,151	(160,941)	–	(160,941)
Loss on movement in exchange rates	(836,049)	–	(836,049)	(443,962)	–	(443,962)
Fair value of plan assets, end of year	$ 25,230,895	$ –	$ 25,230,895	$ 24,485,792	$ –	$ 24,485,792

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(d) Actuarial assumptions:

The determination of the value of the liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as, the discount rates or future increases in salaries) and demographic variables (such as, mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows. The following are the principal actuarial assumptions:

	2019		2018	
	Germany	Other	Germany	Other
Discount rate	1.30%	7.20%	2.10%	7.17%
Future salary increases	0.00%	8.00%	2.75%	7.30%
Future pension increases	0.00%	n/a	2.00%	n/a

Assumptions regarding future mortality are based on published statistics and mortality tables based on statistical information available in the various countries. In Germany, the Heubeck 2018G mortality tables were used in 2019 while the Heubeck 2005G mortality tables were used in 2018. The calculation of the pension liabilities in Germany is based on a discount rate determined using the Mercer Yield Curve approach for an average duration of 15 years at December 31, 2019 and 16 years at September 30, 2018.

The following table shows the effects of possible changes in the actuarial assumptions on the present value of the obligation from defined benefit pension plans that are analysed. A change in the discount rate by 50-basis-points is considered for German plans. In addition, the average duration of the obligation is shown:

Effect on defined benefit obligation	50-basis-points increase	50-basis-points decrease
On discount rate	$ 35,261,949	$ 40,217,941
Weighted average duration of defined benefit obligation	12.72	13.58

12. Capital stock:

(a) Authorized:

Unlimited Preferred Shares, issuable in series
Unlimited Subordinate Voting Shares

(b) Share Consolidation:

On March 28, 2018, at its annual shareholders meeting, the shareholders passed a resolution to consolidate the issued and outstanding Subordinate Voting Shares on the basis of one post-consolidation share for every fifty (50) pre-consolidation shares. Effective April 5, 2018, the Company received an approval from TSX for this share consolidation. All share and per share information in these consolidated financial statements have been restated to reflect the impact of the share consolidation.

(c) Series A Preferred Shares and Subordinate Voting Shares:

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the “Preferred Shares”) and a warrant (“the “Series A Warrant”) (collectively the “Financing Transaction”) to ESW Holdings, Inc. (formerly known as Wave Systems Corp.) (the “Investor”), an affiliate of ESW Capital LLC (“ESW Capital”). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the Subordinate Voting Shares being entitled to elect the balance of the directors, which resulted in the Subordinate Voting Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends, payable quarterly at the rate of 10% per annum of the issue price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

The Preferred Shares will be accreted to their face amount of $80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the fifteen months ended December 31, 2019, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $12,748,114 (twelve months ended September 30, 2018 - $9,832,175). These charges are included in finance costs in the consolidated statements of comprehensive income (loss). During the fifteen months ended December 31, 2019,

12. Capital Stock (continued):

cumulative dividends in amount of $4,264,969 were paid (twelve months ended September 30, 2018 - $11,640,670). The amount of accrued dividends have been included in the Preferred Shares on the consolidated statements of financial position.

(d) Series A Warrant and Standby Warrant::

As part of the Financing Transaction, the Company issued a Series A Warrant that entitles the Investor to subscribe for 925,712 Subordinate Voting Shares at $34.00 per share. The Series A Warrant is classified as a liability because it contains an adjustment provision if the Company issues Subordinate Voting Shares or securities exchangeable for or convertible into Subordinate Voting Shares at a price per share less than the Series A Warrant exercise price. The increase in fair value of the warrant liability of $925,711 during the fifteen months ended December 31, 2019 (twelve months ended September 30, 2018 – decrease of $7,868,549) is recorded in finance costs (recovery) in the consolidated statements of comprehensive income (loss). Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at December 31, 2019 (September 30, 2018 – none).

Upon closing of a rights offering of its Subordinate Voting Shares on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to subscribe for 50,000 Subordinate Voting Shares at $25.00 per share (the “Standby Warrant”). The fair value of the Standby Warrant, classified as equity upon issuance at September 6, 2017, was $997,500. The Standby Warrant expires on September 5, 2027. No warrants were exercised as at December 31, 2019 (September 30, 2018 – none).

12. Capital Stock (continued):

(e) Loss per common share::

Due to the losses for the years ended December 31, 2019 and September 30, 2018, all stock options, the Series A Warrant and the Standby Warrant, are excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the fifteen months ended December 31, 2019 is 26,889 (twelve months ended September 30, 2018 – 51,775). The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively as at December 31, 2019 (as at September 30, 2018 – 925,712 and 50,000, respectively).

(f) Share unit plan:

On July 29, 2010, the Company established a share unit plan for the purpose of providing additional compensation for certain employees, officers or consultants. Units granted under the share unit plan may be PSUs or RSUs.

PSUs granted are subject to vesting contingent on the achievement of performance conditions based on certain Company performance metrics. The related compensation expense is recognized over the related service period, which is based on management's best estimate of the outcome of the performance conditions.

During the fifteen months ended December 31, 2019, the Company granted no PSUs (twelve months ended September 30, 2018 – nil) under the share unit plan. The total expense recorded in the fifteen months ended December 31, 2019 was $nil (twelve months ended September 30, 2018 - recovery of $6,847).

RSUs are subject to a vesting term at the compensation committee's discretion provided that the vesting term does not exceed three years from the grant date. The associated share-based compensation is measured at fair value and is amortized over the appropriate vesting period using the straight-line method.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

During the fifteen months ended December 31, 2019, the Company granted 65,971 RSUs (twelve months ended September 30, 2018 – nil) under the share unit plan to non-directors. The weighted average price of 2019 RSU grants was CAD $40.33 per unit. The Company recognized compensation cost of $1,475,100 in the fifteen months ended December 31, 2019 (twelve months ended September 30, 2018 - $1,959,383) relating to these RSUs.

Performance and restricted share units	2019	2018
Outstanding, beginning of year	108,418	165,712
Settled in cash	(18,930)	(31,099)
Settled in shares	(82,710)	–
Granted	65,971	–
Forfeited	(6,478)	(26,195)
Outstanding, end of year	66,271	108,418

The fair value of RSUs and PSUs granted during the year are established based on the fair value of the underlying stock on the grant date.

(g) DSU plan:

Under the DSU plan, established August 11, 2010, the Company may grant DSUs to eligible members of the Board of Directors. DSU grants and vesting conditions are at the discretion of the Board of Directors. An eligible director may elect to receive their annual cash remuneration in the form of DSUs, cash or any combination thereof. DSUs are classified as cash-settled share-based compensation and are remeasured to fair value at each reporting year.

An eligible director is entitled to receive a cash payment equal to the fair value of the DSUs at the date of redemption.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

During the fifteen months ended December 31, 2019, the Company granted 16,805 DSUs (twelve months ended September 30, 2018 – 14,200) under the DSU plan. The total compensation expense recorded was $746,557 (2018 - $690,767). The value of the liability related to the DSUs as at December 31, 2019 was $1,836,519 (September 30, 2018 - $1,265,170) and is included in other long-term liabilities.

Deferred share units	2019	2018
Outstanding, beginning of year	33,384	20,706
Granted	16,805	14,200
Exercised	(4,252)	(1,522)
Outstanding, end of year	45,937	33,384

(h) Employee stock option plan:

The Company's stock option plan was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company. The maximum number of common shares that may be issued under the current plan is 10% of the issued and outstanding common shares of the Company on the date of grant. The total number of stock options outstanding under the current plan does not exceed this threshold.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

(i) Stock options:

Stock options are non-transferable and vest up to 25% at the end of the first year from date of grant and an additional 25% on each of the second, third and fourth anniversaries of grant. Stock options are priced in CAD.

	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2018	103,708	151.83
Forfeited	(51,933)	155.38
Outstanding, September 30, 2019	51,775	147.94
Forfeited	(24,886)	96.84
Outstanding, December 31, 2019	26,889	$ 195.23

Summary information about stock options outstanding and exercisable as at December 31, 2019 is as follows:

	Stock options outstanding		Stock options exercisable	
Exercise Price (CAD)	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average remaining contractual life (years)
CAD $149.50	9,256	2.93	9,256	2.93
CAD $175.00	11,296	1.89	11,296	1.89
CAD $186.00	500	2.59	500	2.59
CAD $227.50	488	1.35	488	1.35
CAD $315.00	5,349	0.95	5,349	0.95
	26,889	2.06	26,889	2.06

The common share price of the Company as at December 31, 2019 was CAD $52.09 (September 30, 2018 - CAD $48.90) per share.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

(ii) Fair values and share-based compensation expense:

There were no options granted during the fiscal years ended December 31, 2019 and September 30, 2018.

During the fifteen months ended December 31, 2019, the Company recorded a share-based compensation recovery of $46,245 (twelve months ended September 30, 2018 - $250,095) related to stock options granted under this Plan.

13. Income tax expense:

(a) Income tax expense recognized in profit or loss:

	2019	2018
Current income tax expense:		
Current year	$ 8,567,441	$ 5,166,526
Adjustment for prior years	595,265	225,354
	9,162,706	5,391,880
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	1,388,083	86,544
Change in recognized tax benefits	1,066,398	–
Utilization of previously recognized tax assets	24,462	(36,140)
	2,478,943	50,404
Total income tax expense	$ 11,641,649	$ 5,442,284

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(b) Reconciliation of effective income tax rate:

The Company's effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following items:

	2019	2018
Loss before income taxes	$ (2,109,456)	$ (87,149,372)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery based on loss before income taxes	$ (559,006)	$ (23,094,584)
Increase (decrease) in income taxes resulting from:		
Non-taxable/deductible items	2,252,184	(48,989)
Differences due to different income tax rates for foreign subsidiaries	378,749	(941,819)
Withholding taxes	3,352,828	3,181,102
Change in unrecognized temporary differences and prior year losses	4,748,667	19,823,720
Impact of foreign exchange and other items	1,468,227	6,522,854
Income tax expense	$ 11,641,649	$ 5,442,284

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(c) Unrecognized deferred tax assets:

The Company has approximately $331,000,000 (2018 - $366,000,000) of unrecognized loss carryforwards and other deductible temporary differences. As of December 31, 2019, management has not recognized these deferred tax assets in certain jurisdictions as it is not probable that the benefit of these assets can be realized in the foreseeable future. Management will continue to monitor the situation and revise its estimates as appropriate.

Included in the above amount is $171,300,000 (2018 - $167,700,000) of Canadian unclaimed scientific research and experimental development ("SR&ED") expenses and non-capital losses, which are available to reduce future years' income for Canadian income tax purposes.

The Company's Canadian unclaimed SR&ED expenses do not expire, while the Canadian non-capital losses available for carryforward of $152,400,000 expire as follows:

2035	$ 38,900,000
2037	46,500,000
2038	66,600,000
2039	400,000
	$ 152,400,000

Also included in the above amount is $23,800,000 (2018 - $13,700,000) of Maltese non-capital losses, which are available to reduce future years' income for Maltese income tax purposes, and do not expire.

The Company has approximately $7,100,000 (2018 - $7,100,000) of Canadian ITCs, which can also be used to reduce future federal income taxes. These credits have a life of 20 years and begin to expire in 2023. The Company has previously recorded credits of $358,309 (2018 - $361,810) as it is probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(d) Recognized deferred income tax assets and deferred income tax liabilities:

Deferred income tax assets and liabilities are attributable to the following:

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenses and non-capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2018	$ 793,121	$ 1,300,595	$ –	$ 807,753	$ (807,753)	$ 2,093,716
Credited (charged) to loss before income tax expense	9,569	(39,954)	–	(27,141)	–	(57,526)
Credited (charged) to income tax expense	(726,209)	(1,119,699)	–	(780,612)	–	(2,626,520)
Set-off of deferred tax assets and liabilities	–	–	–	–	807,753	807,753
Balance, December 31, 2019	$ 76,481	$ 140,942	$ –	$ –	$ –	$ 217,423
Deferred income tax liabilities:						
Balance, September 30, 2018	$ (120,000)	$ –	$ –	$ (807,753)	$ 807,753	$ (120,000)
Credited (charged) to loss before income tax expense	–	–	–	27,141	–	27,141
Credited (charged) to income tax expense	50,000	–	–	97,576	–	147,576
Set-off of deferred tax assets and liabilities	–	–	–	–	(807,753)	(807,753)
Balance, December 31, 2019	$ (70,000)	$ –	$ –	$ (683,036)	$ –	$ (753,036)

(Expressed in U.S. dollars)

13. Income tax expense (continued):

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenses and non-capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2017	$ 962,495	$ 1,875,833	$ –	$ 924,999	$ (1,435,198)	$ 2,328,129
Credited (charged) to loss before income tax expense	(76,986)	(124,162)	–	(16,277)	–	(217,425)
Credited (charged) to income tax expense	(92,388)	(451,076)	–	(100,969)	–	(644,433)
Set-off of deferred tax assets and liabilities	–	–	–	–	627,445	627,445
Balance, September 30, 2018	$ 793,121	$ 1,300,595	$ –	$ 807,753	$ (807,753)	$ 2,093,716
Deferred income tax liabilities:						
Balance, September 30, 2017	$ (120,000)	$ –	$ (510,199)	$ (924,999)	$ 1,435,198	$ (120,000)
Credited (charged) to loss before income tax expense	–	–	17,139	16,277	–	33,416
Credited (charged) to income tax expense	–	–	493,060	100,969	–	594,029
Set-off of deferred tax assets and liabilities	–	–	–	–	(627,445)	(627,445)
Balance, September 30, 2018	$ (120,000)	$ –	$ –	$ (807,753)	$ 807,753	$ (120,000)

(Expressed in U.S. dollars)

14. Change in non-cash operating working capital:

The change in non-cash operating working capital for the fifteen months ended December 31, 2019 and twelve months ended September 30, 2018 is as follows:

	2019	2018
Trade accounts and other receivables	$ 7,278,173	$ 11,386,553
Unbilled revenue	8,532,734	3,488,496
Prepaid expenses	(150,286)	372,782
Inventories	638,581	(9,853)
Other assets	10,318	1,100,451
Trade payables	(14,217,216)	10,339,067
Accrued liabilities and other liabilities	(3,073,990)	(5,051,898)
Deferred revenue	(6,191,187)	(1,508,420)
Income taxes payable	78,273	591,770
	$ (7,094,600)	$ 20,708,948

15. Segment reporting:

The Company has determined that it operates in a single reportable operating segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products and related services and hardware and is managed on a worldwide distributed basis. The Company's Chief Executive Officer, the chief operating decision maker, reviews internal management financial information on a monthly basis, including revenue, property and equipment and intangible assets.

The Company's revenue by geographic area for the years ended December 31, 2019 and September 30, 2018 is as follows:

	2019	2018
Europe, Middle East and Africa	$ 62,613,889	$ 58,717,785
North America, Latin America and Caribbean	29,640,008	25,705,626
Asia and Pacific Rim	28,628,627	37,203,293
	$ 120,882,524	$ 121,626,704

(Expressed in U.S. dollars)

15. Segment reporting (continued):

Revenue is attributed to geographic locations, based on the location of the external customer.

	2019	2018
Revenue by type:		
Support and subscription	$ 86,859,693	$ 84,747,291
Software and services	32,673,646	33,552,241
Third party software and hardware	1,349,185	3,327,172
	$ 120,882,524	$ 121,626,704

The Company's intangible assets by geographic area are as follows:

	2019	2018
Malta	$ 7,509,074	$ 3,614,722
Canada	–	9,745
United Kingdom	4,706,524	6,520,339
Germany	–	7,896,519
Other	–	3,205
	$ 12,215,598	$ 18,044,530

(Expressed in U.S. dollars)

16. Commitments, restricted cash, guarantees and contingent liabilities:

(a) Lease commitments:

The Company leases certain property and equipment under operating leases. Operating lease payments are expensed on a straight-line basis over the term of the relevant lease agreements. Lease inducements received upon entry into an operating lease are recognized on a straight-line basis over the lease term. Operating lease payments for the fifteen months ended December 31, 2019, were $1,321,976 (twelve months ended September 30, 2018 - $2,306,797). The Company is obligated to make future annual lease payments under operating leases for office equipment and premises.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2019 are as follows:

Less than 1 year	1,867,778
Between 1 and 5 years	–
More than 5 years	–
	$ 1,867,778

(b) Restricted cash:

As at December 31, 2019, the Company had $951,291 (September 30, 2018 - $3,507,759) in cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash. The restricted cash is shown separately in the consolidated statements of financial position.

(c) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees.

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. The Company vigorously defends itself against such claims and reviews the probability of outcome that may result in an outflow of its cash or other resources as at each consolidated statement of financial position date. Although it is not always possible to estimate the extent of potential costs, if any, management believes that

16. Commitments, restricted cash, guarantees and contingent liabilities (continued):

the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

The Company is defending certain claims related to terminated employees, customer and other contract terminations and intellectual property matters. Where an outflow of resources is considered probable, a provision has been recognized in the consolidated statements of financial position at September 30, 2018 and December 31, 2019 as the best estimate of the probable costs that the Company will incur associated with the claims. The charges are recorded in restructuring costs where employee related and in general and administrative expense on the consolidated statement of comprehensive income (loss) for other claims. Although liability is not admitted, if a defense against these matters are unsuccessful, the Company may incur additional costs associated with the claims.

(Expressed in U.S. dollars)

17. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2017	18,164,718	1,313,725	19,478,443
Additions	51,775,138	7,624,863	59,400,001
Cash payments	(60,304,052)	(2,592,821)	(62,896,873)
Settlement	–	(2,385,239)	(2,385,239)
Foreign exchange	(279,124)	–	(279,124)
Balance, September 30, 2018	$ 9,356,680	$ 3,960,528	$ 13,317,208
Additions	2,066,258	740,000	2,806,258
Cash payments	(6,225,936)	(294,102)	(6,520,038)
Release of provision	(3,781,499)	(1,965,418)	(5,746,917)
Foreign exchange	(189,350)	–	(189,350)
Balance, December 31, 2019	$ 1,226,153	$ 2,441,008	$ 3,667,161

Current	$ 7,655,199
Non-current	5,662,009
Balance, September 30, 2018	$ 13,317,208
Current	$ 3,630,550
Non-current	36,611
Balance, December 31, 2019	$ 3,667,161

(a) In February 2017, the Company announced a corporate restructuring plan that would involve further reduction in headcount, location reorganization including closure of certain facilities and entity simplification. In November 2017, the Company finalized a further restructuring plan to reduce approximately 530 employees globally and vacate premises in 18 locations.

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's significant assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company developed a detailed plan and has recorded termination costs for employees informed of their termination and costs related to closure of certain facilities and entity simplification. At the end of each reporting period, management evaluates the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience, terminated employee claims or changes in estimates.

During the fifteen months ended December 31, 2019, restructuring charges related to employee and lease terminations of $2,066,258 (twelve months ended September 30, 2018 - $51,775,138) were recorded. During the fifteen months ended December 31, 2019,

17. Provisions (continued):

$3,781,499 (twelve months ended September 30, 2018 – nil) of restructuring provision was reversed, as full and final settlements with claimants were made at amounts less than previously estimated.

For the fifteen months ended December 31, 2019, an amount of $6,225,936 (twelve months ended September 30, 2018 – $60,304,052) has been paid and as at December 31, 2019 an additional amount of $1,189,542 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, is payable over two years, and amounts to $36,611 and has been discounted to its present value.

(b) The balance at December 31, 2019 in other provision includes an intellectual property claim, terminated contracts and loss provisions related to certain customer contracts where it was probable that the total costs to complete these contracts will exceed the contract revenue.

During the fifteen months ended December 31, 2019, the Company amended one of its existing customer loss contracts and settled a disputed contract termination. On review of the estimated costs to complete the revised scope of the customer contract, the Company determined the contract revenue was expected to exceed the contract costs and hence the provision was reversed. The reversal of the contract loss provision, and the subsequent settlement of a disputed contract termination, aggregating $1,965,418, has been recorded as a recovery in the consolidated statements of comprehensive loss on the same line item where the provision was initially recorded. Subsequent to December 31, 2019, the Company has received a partial adverse award arising from a dispute relating to a contract with a former customer that was previously terminated. The Company intends to appeal this award and vigorously defend its position.

Although liability is not admitted, if a defense against any of these matters is unsuccessful, the Company may incur additional costs associated with the claims that may exceed the Company's best estimate of the provision at December 31, 2019.

(Expressed in U.S. dollars)

18. Related party transactions:

Compensation of key management personnel:

Key management personnel comprise the Company's directors and executive officers.

The aggregate remuneration of key management personnel during the years ended December 31, 2019 and September 30, 2018 is as follows:

	2019	2018
Salaries and employee benefits	$ 3,785,789	$ 1,753,166
Share-based compensation (a)	2,476,471	2,927,527
	$ 6,262,260	$ 4,680,693

(a) Share-based compensation includes cash-settled and equity-settled awards, as described in note 2(s)(iii).

Service agreements:

In September 2017, the Company entered into long term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the “Service Agreements”) who provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. The Service Agreements can be terminated by either party with 30 days written notice. The Service Agreements were negotiated and approved by the Special Committee of the Board of Directors. The contracted rates with these related parties are priced as agreed to by the parties and are to be settled in cash on normal payment terms upon receipt of invoices. The Company has not offered any security to these vendors.

Crossover provides Optiva with access to skilled temporary employees. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the fifteen months ended December 31, 2019, the Company has incurred $26,670,587 of costs associated with services provided by Crossover twelve months ended September 30, 2018 – $27,965,903). The costs have been recorded in cost of revenue or operating expenses in accordance with the department of the contract resource in the consolidated statements of comprehensive income (loss).

18. Related Party Transactions (continued):

DevFactory provides certain technology services to Optiva as per agreed statements of work. Effective June 30, 2019, the Service Agreement between Optiva and DevFactory was assigned to GTeam FZ-LLC as part of in internal reorganization by DevFactory. GTeam FZ-LLC is also fully owned by ESW Capital. On September 1, 2019, Gteam FZ-LLC changed its name to DevFactory Innovations FZ-LLC. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the fifteen months ended December 31, 2019, the Company has incurred $25,149,772 of costs associated with services provided by DevFactory (twelve months ended September 30, 2018 – $31,667,593). The costs have been recorded in cost of revenue and research and development expenses in accordance with the nature of the expenditure in the consolidated statements of comprehensive income (loss).

Amounts owing to Crossover and DevFactory as of December 31, 2019 aggregated to $8,919,128 (September 30, 2018 - $18,755,628) and are included in both trade payables and accrued liabilities in the consolidated statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors was $138,773 for the fifteen months ended December 31, 2019 (twelve months ended 2018 – $247,672) and have been recorded in general and administrative expense in the consolidated statements of comprehensive loss. Amounts owing for these services as at December 31, 2019 aggregated to $65,692 (September 30, 2018 - $340,699) and are included in accrued liabilities in the consolidated statement of financial position.